



MIDWEST INDEPENDENT BANK

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Ms. Ann Misback
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20429

Re: Docket No. OP-1670 - Federal Reserve Actions to Support Interbank Settlement of Faster Payments, Request for Comment

Dear Ladies and Gentlemen:

Midwest Independent Bank appreciates the opportunity to comment on Federal Reserve actions to support interbank settlement of faster payments through the development of proposed and contemplated FedNow services. Midwest Independent Bank is a correspondent bankers' bank serving over 500 community banks throughout the Midwestern United States. We are owned by many of the community banks we serve and respectfully respond with the current and future needs of those community banks in mind.

For the ease of the board's team responsible for cataloguing responses, we will address each proposed feature, as well as each auxiliary feature under consideration in short response. Finally, we will offer additional general observations related to the Federal Reserve Bank's role in supporting interbank settlement of faster payments.

Proposed Features

- Real-time processing of individual credit transfers on a 24x7x365 basis
 - This is a necessary objective to include early support of expanded hours for other payment types such as Wire Transfer and ACH, as well as, expansion of National Net Settlement. Enhancing current rails will assist in preparing community banks and their agents in the near term for real-time credit push and eventual request for payment capability.
- Final and irrevocable settlement of payments in financial institutions' master accounts at the Reserve Banks
 - As with current mature payment types, it behooves the Fed, from the standpoint of the safety of the payment system, to ensure real-time payments remain bank centric by settling transactions against master accounts at the Federal Reserve Banks, either directly by participating financial institutions, or indirectly through the use of an agent such as a correspondent bankers' bank or corporate credit union.

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- Integrated clearing functionality with messages based on ISO20022
 - Use of a standard format such as ISO20022 will be critical in reaching desired ubiquity as the private U.S. sector offering, The Clearing House's RTP, and a number of global immediate payment efforts are already using ISO20022 as the format of choice. Consistent formats would lend to interoperability early in the process, while protecting against weak links or potential single points of failure that could occur if interoperability is instead built upon specific processing schemes such as shared nodes on competing network rails.
- Transaction value limit of \$25,000
 - We encourage the Federal Reserve Bank to adopt a transaction value limit for FedNow that is consistent with the private sector and other faster payment initiatives. (i.e., RTP and Same Day ACH) The value limit for both is anticipated to be greater than \$25,000 at the launch of FedNow. It is the expectation that further limits may be placed, as appropriate, at the account/end user level by the participating financial institutions for further risk mitigation, not unlike other payment types.
- Real-time confirmations of validity of the receiver's account
 - We believe real time validity of receiver accounts is critical to a safe immediate payment offering. This is often lacking or otherwise inadequate in current payment schemes causing unnecessary losses to the payment industry and thus to the economy as a whole.
- Access to intraday credit on a 24x7x365 basis consistent with the Federal Reserve's Policy on Payment System Risk
 - Payment System Risk offices must be open and available when payment activity settles. As the clock and calendar opens up for expanded payment processing, so should access to the discount window and other liquidity tools utilized by community financial institutions.

Auxiliary Features Under Consideration

- Request for Payment
 - Though desirable, development of request for payment functionality should not delay the availability of a more timely credit push solution. In our opinion it would not be an immediate requirement, but would be appropriate for development in the future in order to cover one of the most important use cases for real-time payments (C2B/P2B)

- Directory
 - We believe a directory of directories would most benefit the industry and oversight should be led through the collaboration of the Federal Reserve Bank and the private sector to include The Business Payments Directory Association. Securing said directory infrastructure is of paramount importance in order to protect the financial privacy of all participants. Of particular note, the industry has already surfaced numerous challenges with alias tokenization such as the use of email addresses and mobile phone numbers within a multitude of different directories. Surely we can do better for the sake of the U.S. payment system. We would expect directory experts to continue the work that has begun to vastly improve initial directory designs.
- Fraud Prevention Services
 - Above all other issues, we need to solve for the rampant fraud that exists within current payment rails. The Federal Reserve is in the best position to act as a central fraud monitoring agent/gateway to augment the risk mitigation efforts of the broader payment industry. The Clearing House should endeavor to serve in such a role as well. Additional regulation will be needed to catch up with appropriate security expectations in an around-the-clock, immediate and final and irrevocable payment world.

General Comments

- Time to market
 - Many have and will continue to stress the need for the Federal Reserve Bank to come to market more quickly than suggested and although that concern should be heard, it is more critical the Fed design a good and appropriate set of solutions, even if it takes a bit longer than desired. The complexity of the U.S. payment system demands a methodical approach that allows for a design respectful of future opportunities and future challenges.
- Core Provider dependency
 - The obvious and often suggested approach of Fed working closely with core processors to roll out FedNow to the bank and credit union masses should be challenged as it is, on its surface, a short sided approach. Technology exists to prevent such automatic continued dependency on core system providers. Increasingly, community financial institutions are beholden to their core system provider in such a way that often limits innovation and the necessary flexibility to best serve their end users in a competitive and thoughtful manner. This is instead an appropriate time to find a way or ways outside traditional processing avenues to facilitate immediate payments. Such an approach does not preclude traditional core providers from offering solutions, but it should not be the de facto design.

- Standard Rules and Governance
 - A consistent set of rules for all immediate payments appears to be the desire and expectation of most payment participants. We suggest Fed work closely with the private sector to develop said rules. An example of how this has worked well for other payment types would be Nacha with ACH. An example of how this has *not* worked well is with the card networks as it relates to card payments. We would specifically encourage Fed to work closely with the Faster Payments Council (FPC) and Nacha to develop common rules and governance over real time payments. This would be respectful of the work completed by the Faster Payments Work Force who collectively called for the formation of the FPC to collaborate advances in payments within the U.S. Payment system. Rules and governance should most certainly fall under this inclusive umbrella.
- Settlement Data
 - In the cases of participants using settlement agents, it will be critical the settlement data for real-time transactions be available to the agent/correspondent regardless of whether or not the transaction is processed directly by/through the agent/correspondent, similar to the Z file for ACH processing. This not only supports the settlement obligations but also further augments fraud mitigation monitoring and oversight efforts.

This concludes our comments. Please contact us with any questions you may have. We would be happy to assist. Again, we are very appreciative of this opportunity to respond to this request for comment and look forward to hearing how the Federal Reserve Bank will continue to respond to this call for action.

Best Regards,



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